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TAGS: [ECON](#) [EFIN](#) [ENRG](#) [EPET](#) [AJ](#)
SUBJECT: A/S FRIED,S MEETING WITH AZERBAIJANI STATE OIL
FUND EXECUTIVE DIRECTOR SHAHMAR MOVSUMOV

Classified by EUR A/S Daniel Fried. Reasons: 1.4 (b), (d).

¶1. (U) A/S Fried, joined by NSC Director for Eurasia Judy Ansley, met with Executive Director of the State Oil Fund of Azerbaijan (SOFAZ) Shahmar Movsumov on September 20 in New York on the margins of the UNGA. EUR/CARC Director Elizabeth Rood also attended (notetaker).

¶2. (U) A/S Fried began the meeting by noting the strong U.S.-Azerbaijan relationship and President Aliyev's goals for the nation, which had been advanced through his April visit to Washington. Noting the massive oil and gas revenues expected in Azerbaijan in the coming years, A/S Fried asked Movsumov how Azerbaijan planned to use the flood of money wisely.

¶3. (U) Movsumov explained that the Government of Azerbaijan, understanding that political pressure to spend oil revenues would increase as the revenues rose, created SOFAZ in 1999 to divert that pressure and ensure that the revenues would be used for the benefit of the people. Movsumov explained that SOFAZ participated in the UK's Extractive Industries Transparency Initiative (EITI). SOFAZ receives all energy revenues and transfers them to the state budget, ensuring that they are expended in a transparent manner through the budget with approval of Parliament. SOFAZ funds are being used for large projects of national importance, such as housing for persons internally displaced by the Nagorno-Karabakh conflict. SOFAZ itself does not determine the use of the funds but manages them, with all money invested overseas, subject to strict auditing and credit rating requirements and in a fully transparent manner. The prevailing view for further use of the revenues is for large infrastructure projects, so as to pass the riches of the nation's resources to the people and to future generations. In response to a question from A/S Fried, Movsumov said GOAJ was considering whether to distribute money from SOFAZ funds to retirement accounts.

¶4. (U) Noting Movsumov's previous experience with Azerbaijan's National Bank, A/S Fried asked his views on the strength of Azerbaijan's banking system. Movsumov said Azerbaijan had taken "enormous measures" to build a strong banking system with stringent supervision. The banking system is somewhat undercapitalized, he said, but this is because it is young. Many advisors, including those from USAID and the National Bank of Switzerland, had helped in strengthening the system. Asked by A/S Fried whether Azerbaijan needed additional help in this area, Movsumov said past assistance had been valuable, and more is needed. A/S Fried said he would look at how the U.S. could provide further assistance. Movsumov said TDA's assistance was very valuable, and he had discussed the previous week with TDA's Dan Stein moving to Phase Two of that program.

¶5. (C) A/S Fried recalled that other Azerbaijani officials had told him Azerbaijan intended to build its military so as to retake Nagorno-Karabakh, and he had warned these officials that a new war over Nagorno-Karabakh would mean an end to energy revenues. A/S Fried asked Movsumov how much of Azerbaijan's oil and gas revenues would be devoted to military spending, and how Azerbaijan's spending plans relate to regional issues. Movsumov replied that this was not his direct responsibility, but he strongly believed a peaceful resolution of the conflict was the only way forward. Economic development can push countries toward peace. However, without building pressure on Armenia and NK, it would be impossible to change the status quo; and the only way to build that pressure was through defense spending. The U.S. experience in the Cold War provided an example of this, he added. Fried stressed the dangers of military brinksmanship.

¶6. (U) A/S Fried stressed that the U.S. wants Azerbaijan to succeed, and to work with it to develop democratic institutions so that it emerges as a "success story" in the region. An independent, sovereign Azerbaijan with regional options is good for the region. The U.S. interests in democracy and energy are one in the same because wise exploitation of energy resources requires democratic institutions.

¶7. (U) In response to Ansley's question of whether the U.S. could provide additional assistance on the management of

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energy revenues, Movsumov said Phase Two of the TDA program would meet Azerbaijan's needs, and, in addition, Azerbaijan had applied for a World Bank program.

¶8. (U) CARC Director Rood praised the progress Azerbaijan had made through establishment of SOFAZ. As the first country to join EITI, she said, Azerbaijan had valuable experience to share with other resource-rich countries. Despite the cancellation of NSC's Natural Resources/Social Development Fund roundtable that Movsumov had come to attend, the U.S. hoped Azerbaijan would find opportunities to help other countries benefit from its experience. Movsumov replied that Azerbaijan was already working with Kazakhstan and was prepared to work with other countries as well.
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